

Vermont State Auditor's Office

2010 Annual Report

Message from Auditor Tom Salmon

Special points

- SAO Strategic Plan FY 2010-2012 and Performance Report for 2010
- Reports on performance audits conducted in 2010
- Highlights from the Entergy Decommissioning Trust Fund report
- Who we are and how to contact us

Our Mission Statement

The mission of the Vermont State Auditor's Office is to be a catalyst for good government by promoting professional audits, financial training, efficiency and economy in government and service to cities and towns.

I am often asked to explain what our office does, how we perform our audits, and the results of our work. I hope that you will find answers to these questions in this annual report.

First, let me explain what our office does. There are three major types of audits for which we are responsible – performance audits, the State's financial statement audit (CAFR), and the State's single audit (which looks at the usage of federal funds by the state). All of these audits focus on the accountability of the State to its citizens, from both a financial and service delivery perspective.

I'm particularly proud that we've successfully implemented performance auditing in our office because these audits provide valuable insight into whether government programs and operations are working effectively and efficiently and provide recommendations for improvements. I invite you to submit suggestions for future performance audits.

Next, we perform our audits in accordance with generally accepted government au-



State Auditor Tom Salmon, CPA

ditating standards, which are promulgated by the U.S. Government Accountability Office. Implementation of these standards ensures that our audit work and products are of the highest quality and uphold the principles of independence, objectivity, competence, and integrity. If you are interested in the nuts and bolts of how we perform our work, I invite you to peruse our Professional Standards Manual.

Of course, the most important element in ensuring that our audits are conducted in a quality manner is our staff. Currently, we are

an office of 14 employees, which includes nine staff auditors, many of whom have achieved prestigious certifications, such as Certified Public Accountant (CPA), and advanced academic degrees.

Lastly, let me speak about the results of our work. A quick synopsis can be found in our annual performance report. The most visible results are in the implementation of our recommendations. As you will see in our annual performance report, the most recent follow-up work on our recommendations showed that more than two-thirds had been implemented. As a result, the State has saved money, employed additional safeguards against fraud, waste and abuse, and improved its processes and procedures.

If you have any questions or concerns to bring to my attention, please feel free to call or write me at any time.

Thomas M. Salmon CPA

Thomas M. Salmon, CPA,
Vermont State Auditor

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SAO issues strategic plan, checks office performance

FY 2010-2012 Strategic Plan and FY 2010 Performance Report

The State Auditor's Office commitment to high standards is demonstrated by our strategic plan and annual performance report, which we provide to the legislature and post on our web site.

Our strategic plan defines how we intend to serve Vermonters over the next few years while our annual performance report describes in quantitative and qualitative terms the extent to which we are achieving the goals set forth in this plan.

While we are pleased that our latest performance report shows progress toward meeting our performance targets, it also pointed out areas in which improvement is needed.

Thus, through continuous performance monitoring and reporting, we

make our operations and accomplishments more transparent to the public as well as identify areas where changes are needed to improve our overall value to the taxpayer.

SAO receives award for report

State Auditor Salmon received notice recently that the Association of Government Accountants awarded the office the Vermont State Auditor's Office a Bronze Certificate of Achievement for its report entitled "FY2010-2012 Strategic Plan and FY2009 Performance Report."

AGA, based in Alexandria, VA, is an organization dedicated to serving government accountability professionals by providing quality education, fostering professional development and certification, and supporting standards and research to advance government accountability.

"The office is proud of its efforts as a performance auditing workplace," Salmon said, "and will continue to strive toward higher achievements in performance reporting."

Once again, the Office of the State Auditor and the Vermont League of Cities and Towns, in cooperation with the Vermont Municipal Clerks' & Treasurers' Association and the Vermont GFOA are pleased to sponsor the fifth annual Governmental Accounting and Auditing Symposium Tuesday, June 21, 2011, at the Capitol Plaza Hotel in Montpelier. Watch for details.



Focus of auditor's office shifts to performance auditing

In FY 2008, the auditor's office changed its focus toward an "accountability office" model, and negotiated a five-year contract with KPMG to perform both the CAFR (Comprehensive Annual Financial Report) and the A-133 Single Audit with significant contributions by our audit staff.

This contract has allowed the office to conduct more performance audits

and special reviews that would assess efficiency and effectiveness of the programs and operations of state government.

Last year, 2010, was the first full year with a significant allocation of audit staff resources to performance audits. We completed several significant projects. On the following pages, you will find a brief synopsis of several of those projects.

"The office is proud of its efforts as a performance auditing workplace."

*Tom Salmon, CPA,
State Auditor*

Sex Offender Registry audit reveals errors

The SAO conducted a performance audit of the data reliability of the Sex Offender Registry to ensure that the portion of the registry that is posted to the Internet is accurate, reliable and timely.

As of mid-February 2010, the Sex Offender Registry (SOR) had 2,633 records, of which 1,549 were offenders that were residing, working, or going to school in Vermont (i.e., community-based offenders).

The audit discovered a sizeable number of errors in the registry. The auditor's office used an automated data analysis tool, IDEA, to review the entire SOR database of 2,633 offenders for data anomalies or logical inconsistencies. This analysis found 181 critical and 59 significant errors.

The most serious errors were related to offenders who have been registered with the SOR in error or offenders who were registered with the SOR for longer than statutorily required.

The audit also assessed whether controls were in place to prevent errors, omissions and outdated registry data.

Overall the audit found that the established controls were largely manual and were not always documented or applied consistently.

The report's recommendations emphasize that improving the Sex Offenders Registry's reliability will require the joint efforts of Vermont Criminal Investigation Center, Department of Corrections and the courts.

We're on the web! auditor.vermont.gov



Automated data mining techniques helped us to identify problems with the state's vendor payment system.

Hugh Pritchard shares some tips for successful data mining during his presentation at the New England Intergovernmental Audit Forum in North Conway, NH, in October 2009.

Data mining identifies improper payments



Jeff Kellar (left) and Steve Vantine answer questions during their presentation on data mining at the NEIAF in North Conway.

Utilizing automated data mining techniques we reviewed a large sample of payments made through the state vendor payment system in 2007 and 2008. We identified 52 duplicate payments, most of which had been repaid to the state. In addition, we reviewed the vendor payment internal controls at 25 departments and identified several significant internal control weaknesses that expose the state to additional improper payments. Our audit recommendations addressed these weaknesses.

The staff members who performed the audit presented information on data mining techniques at the New England Intergovernmental Audit Forum fall meeting in North Conway, N.H., in October 2009.

In their presentation, Audit Manager Steve Vantine, Audit Supervisor Jeff Kellar and Senior Auditor Hugh Pritchard provided an overview of their methodology, data mining tips and techniques and the preliminary results of the audit.

Additional state guidelines might benefit Entergy's decommissioning trust fund

Following the shutdown of Entergy's nuclear power plant in Vernon, a significant amount of radioactive waste will remain until the waste is removed and the plant site cleaned up. The cleanup of this radioactive waste represents a significant financial obligation for Entergy. The decommissioning trust fund was set up to offset those costs.

A review of Entergy's decommissioning trust fund found Entergy's system for safeguarding the assets of the decommissioning fund may benefit from additional state guidelines and a more frequent status review.

The overall investment policy allows for significant flexibility that could expose the fund to more risk than necessary.



An aerial view of the Vermont Yankee nuclear power plant in Vernon is shown in this undated file photo.

VEGI audit reveals needed improvements

The State Auditor's Office is required by law to conduct a biennial audit of the Vermont Employment Growth Incentive program.

The objective of the audit was to determine if the Department of Taxes has processes in place to ensure that the incentive claims

and payments are accurate, complete and timely in 2008.

Our results indicated that the Tax Department's processing of job-creation incentive claims could be improved. Some internal controls had been established but additional written procedures could benefit the program.

VEGI's purpose is to create new jobs and to generate new qualifying capital investments by awarding cash incentives to applicants approved by the Vermont Economic Progress Council (VEPC). The program is administered by VEPC and the Department of Taxes.

Supervisory unions and school districts learn financial status from situation reports

A situation report is an effective tool used to foster forward progress by informing citizens and management of issues that may need attention. It is not an audit and expresses no opinion nor draws conclusions. Instead, the report gathers information in order to identify issues relevant to the entity. Ultimately, it is the responsibility of the entity's stakeholders to address the issues. A situation report is a tool to improve effectiveness and efficiency. If we improve government performance we will improve the lives of Vermonters.

Tom Salmon, CPA, Vermont State Auditor

The State Auditor's Office is often called upon for advice by municipal officials, school officials and private citizens who have questions about how public funds are handled. The SAO gathers information and, when warranted, issues a situation report. During 2010, two such reports were prepared for the following entities - Windham Northwest Supervisory Union and the Barre School District. The SAO also contracted with MGT of America Inc. to conduct a performance audit of Southwestern Vermont Supervisory Union in Bennington.

WNESU

Windham Northeast Supervisory Union situation report was done as a follow-up to findings and recommendations noted in a report issued in 2002 by the State Auditor's Office.

Many of the findings had been addressed in 2009 and the Department of Education has plans to review the status of others in 2011.

Barre School District

The situation report for the Barre School District was requested by a member of the school board, who had expressed concern when a surplus in the budget was discovered and later reversed to be reported as a deficit.

By reviewing the management letters from the independent auditing firm received each year from 2006, it was apparent that the same material weaknesses were occurring and not being addressed or corrected.

For both WNESU and the Barre School District a strategic planning process along with formal corrective action plans to address audit findings would improve their performances.

SVSU

MGT of America Inc. was contracted to conduct the performance audit of the Southwestern Vermont Supervisory Union.

In their report issued to the SAO and SVSU, the auditors found that the majority of inefficiencies at the supervisory union were due to the "divided structure and governance of SVSU and the member districts."

The audit team also found that compared to other supervisory unions of similar size, SVSU's per-student expenditures for administrative and board costs were higher. Again, MGT said savings could be achieved by not duplicating costs between the central office and each school district.

We're on the web! <http://auditor.vermont.gov>

Here's what we've been working on

March 2011	Auditors' Report as Required by OMB Circular A-133 and Related Information	http://auditor.vermont.gov/sites/auditor/files/19521StateofVermont-A133-609-FINAL.pdf
Dec. 2010	Comprehensive Annual Financial Report for Fiscal Year ending June 30, 2010	http://auditor.vermont.gov/sites/auditor/files/2010_CAFR_FINAL.pdf
Dec. 2010	State Job Creation Programs Audit Strategy	http://auditor.vermont.gov/sites/auditor/files/Job_Creation_Audit_Strategy.pdf
Dec. 2010	Audit of Southwestern Vermont Supervisory Union by MGT of America Inc. including supplemental reports	http://auditor.vermont.gov/sites/auditor/files/SVSU_SUPPLEMENTAL_FINAL_12_23_10.pdf
Aug. 2010	Vermont Employment Growth Incentive Audit	http://auditor.vermont.gov/sites/auditor/files/VEGI_Report_-_2010.pdf
June 2010	Sex Offender Registry: Reliability Could Be Significantly Improved	http://auditor.vermont.gov/sites/auditor/files/Final_SOR_report.pdf
June 2010	Improper Payments: Internal Control Weaknesses Expose the State to Improper Payments	http://auditor.vermont.gov/sites/auditor/files/Improper%20Payments%20Report%20-%20Internal%20Controls.pdf
June 2010	Improper Payments: Results of Review of VISION Payments Made During 2007 & 2008	http://auditor.vermont.gov/sites/auditor/files/Improper%20Payments%20Report%20-%20Actual%20Results.pdf
March 2010	Windham Northeast Supervisory Union Situation Report	http://auditor.vermont.gov/sites/auditor/files/WNESU_summary__report.pdf
March 2010	Barre City School District Situation Report	http://auditor.vermont.gov/sites/auditor/files/Barre_City_Situation_Report_Final_22311.pdf
March 2010	Summary of Audit and Review Findings – FY 2009 and FY 2010 through December 2009	http://auditor.vermont.gov/sites/auditor/files/Legislative%20report%20of%20fy09%20findings.pdf
Jan. 2010	Litigation Report: As Required by Act No. 80, Sec. 22a of the Vermont General Assembly, 2007-2008 Session	http://auditor.vermont.gov/sites/auditor/files/LITIGATION_REPORT__01_15_2010_FIN

Who we are and how to reach us



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*“From State Street
to Main Street
to School Street”*

Directions

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